Issue

At issue in this proceeding is the use of Prevailing Company Price(PCP) methodologies in determining the price charged to the regulated affiliates of Sprint Corporation by Sprint North Supply Company. The FCC suggests that Prevailing Company Price should be excluded from the list of accepted valuation methods for products/services provided by Sprint North Supply Company to its affiliates because it fails the "arms length" test deemed the most reliable determinant of rational economic behavior. The FCC implies - by its stated preference for "arms length" relationships - that such relationships offer regulators an inherently higher level of confidence in management decisions than that presented by comparable transactions amongst affiliates. Yet with rare exception, the major abuses of public trust in the procurement area have been with non affiliate rather than affiliate entities.

Principal Observations

Upon examination of the affiliate transaction rule changes proffered by the FCC in this **Notice** I have concluded that the proposed set of revisions are universally predicated upon flawed logic, ignorance of fact and unwarranted fear. The latter is extremely difficult to address. The former two are easier . The balance of this paper will be devoted to exploring instances of that flawed logic and ignorance in the hope of improving the products of this proceeding.

In contrast to the conclusions presented by the FCC in its **Notice**, I would submit that -

> **Sprint North Supply Company competes in both "internal" and "external" markets that are effectively equivalent in their buying mentalities**
>
> The Sprint North Supply Company currently supplies the principal material requirements for all of the Sprint Corporation's local exchange company subsidiaries. It does so without a master contractual agreement which binds any subsidiary to purchase any material products offered by Sprint North Supply. Instead, North Supply employs a two-element strategy of 1)price and 2)service to maintain the business and goodwill of its internal customers.
>
> The effectiveness of this strategy has been recently demonstrated with the reassignment - after extensive management evaluation - of Central Telephone Company's material management requirements to North Supply from Alltel Corporation. Sprint's local telecommunications division management cited both lower cost and enhanced service as major considerations in its decision. The

decision to reassign fulfillment responsibilities to Sprint North Supply for Central Telephone evidences the existence of certain decision attributes characteristic of a fully competitive market -

- •independent authority for decisions is vested with the customer
- •alternative sources of supply are available
- •negotiable terms/conditions for service are available
- •right of rescission/employment at will by both parties

Collectively, the four market attributes produce an internal negotiating framework that roughly parallels an open market. The relationship prospers or fails upon the mutual satisfaction the parties derive from the business arrangement.

Examination of the business relationship between Sprint local exchange units and Sprint North Supply Company closely parallels the business relationship Sprint North Supply Company maintains with its non affiliate customers. Here again, with only very limited use of contractual agreements (only in extraordinary circumstances) Sprint North Supply Company has chosen to employ price and service as the critical strategy components in acquiring and retaining non affiliate customers. Here again, Sprint maintains an equivalent set of operating guidelines to govern its business relationships -

- •independent authority for decisions is vested with the customer
- •alternative sources of supply are available
- •negotiable terms/conditions for service are available
- •right of rescission/employment at will by both parties

It is our professional opinion that any characterization of the affiliate markets and non affiliate markets of Sprint North Supply as distinctly - and necessarily - different in their construct - and conduct - is a mischaracterization of both the market mechanisms and the individual participants. Furthermore, we have concluded that because participants in each of the respective market segments exhibit a high degree of similarity in their approach to business relationships they will evidence similar behaviors when presented with price and service considerations. Therefore, I see no reason for Sprint to continue to distinguish between these two market segments in regulatory representations nor to endorse any artificial differentiation in the way North Supply is permitted to address its respective markets.

Prevailing Company Price equates to "prevailing competitive price" for both affiliate and non affiliate transaction matters involving Sprint North Supply Company

Sprint North Supply's pricing methodologies effectively provide a price range on its products that closely parallel the range of prices available on the open market. The company methodology groups equivalent products (i.e., potential substitutes), adjusts for volume and administrative costs and sets target prices for all customers -affiliate and non affiliates - in a nondiscriminatory manner. Since 1974 the level of non affiliate sales has continued to grow steadily - in proportion to its affiliate sales - offering conclusive evidence that the price charged by Sprint North Supply is at least within the range of market tolerance. Given the fact that Sprint North Supply has not set its prices with the intent of maximizing its non affiliate market share it is reasonable to conclude that its prices are sufficiently competitive with those available from other sources to be deemed acceptable by the FCC as "prevailing"

The use of a "prevailing competitive price" is the only feasible means of administering transactions conducted by Sprint North Supply Company on behalf of the Sprint Corporation affiliates

Sprint North Supply Company serves as the principal purchasing agent for all of the Sprint Corporation's local exchange company subsidiaries as well as over 12,000 non affiliate entities. In its capacity as a wholesaler to those entities it reviews, evaluates and ultimately acquires tens of thousands of products, replacement components and materials. Sprint North Supply must continuously reevaluate the delivery schedules of its suppliers, stocking levels and demand forecasts to balance the potential economic benefit available to its clients offered by consolidated procurement and its material handling costs for shipping, warehousing and asset accounting.

The use of a uniform prevailing company price for both affiliates and non affiliates provides Sprint North Supply the ability to normalize for periodic management purchasing decisions which may temporarily increase/decrease the unit price of its various supported products. It also provides customers - both affiliate and non affiliate - a degree of price certainty evident within a fully competitive market

The proposed 75% standard for the use of prevailing company price (PCP) is unreasonable and unachievable in a fully competitive market

The FCC has proposed in this Docket to deny Sprint - and the industry - the option to use Prevailing Company Price methods for charging subsidiaries for purchases from Sprint North Supply unless it can demonstrate that over 75% of Sprint North Supply's sales are to non affiliates. It is unclear from the **Notice** the evidentiary basis for the recommended 75% level. However, one can only conclude that the FCC has independently determined the proposed standard to be reasonable to achieve.

In fact, the standard appears unreasonable to either attain and/or maintain in the current marketplace. For both Sprint North Supply - and the industry as a whole - the 75% level represents a virtually impenetrable barrier. No affiliated procurement organization that we are familiar with currently satisfies the proposed requirement. Currently, Sprint North Supply Company derives approximately 61% of its revenue from non affiliate sales. This represents the highest attained level of non affiliate sales of any affiliated procurement organization subject to this proceeding. That achievement is the product of an extremely aggressive sales effort on the part of Sprint North Supply conducted over two decades to find additional domestic and international markets for products/services it is currently authorized to offer.

In order for Sprint North Supply to substantially improve its relative performance against the proposed FCC standard, Sprint North Supply must effectively de-emphasize its supplier role to the Sprint affiliates or substantially increase its competitive effectiveness in non affiliate markets. A decision to employ either - or both - of these strategies would offer no substantive benefit to the local exchange carrier units in the future which we believe is a major consideration ignored in the promotion of such a requirement. Any de-emphasis on affiliate procurement could produce inventory shortages, increased order intervals and higher material prices to the local exchange companies.

Increased non affiliate sales could only be achieved at the expense of another supplier and at possibly unattractive terms/conditions. Over the past decade, Sprint North Supply Company has pursued an aggressive - but prudent - strategy which balances internal commitments to affiliate clients with the attractiveness of non affiliate markets. Despite its aggressiveness, that strategy has allowed Sprint North Supply Company to only slightly improve its relative proportion of non affiliate sales in recent years. Sprint North Supply's relatively small increase in non affiliate sales over the past decade reflects the increasing competition from other wholesalers and manufacturers. Based upon current market conditions it is reasonable to conclude that neither Sprint North Supply Company nor any other party to this proceeding can achieve compliance with the proposed FCC requirements without significant realignment of resources and some consequential degradation of its affiliate commitment. That would be an unacceptable tradeoff and represent a willful abrogation of public responsibility on the part of the corporation if it were authorized.

With the likelihood of achieving the 75% standard highly improbable - if not impossible, it can only be concluded that achievement of the standard is not a goal sought by the FCC in its proposal. Instead, the FCC proposes to knowingly establish a standard no one is able or willing to pursue. This is not only unreasonable it constitutes punitive regulation.

The proposed 75% standard for the use of prevailing company price (PCP) is unnecessary in a competitive market

The proposal by the Commission to restrict the use of Prevailing Company Price methodologies in situations where companies can demonstrate that over 75% of those transactions are with non affiliates suggests that affiliate transactions based upon Prevailing Company Price methodologies have an inherent bias that disadvantages regulated affiliates. The imposition of such a standard suggests that such bias can only be mitigated by the elimination of PCP or by the addition of significant levels of non affiliate market demand.

First, the Commission has not introduced in this proceeding sufficient evidence to suggest that such bias does, in fact, exist or if it does exist that the imposition of such a standard will result in any improved cost to the regulated units.

Second, the need to encourage growth in non affiliate demand is unnecessary. Sprint North Supply Company is an independently managed unit of Sprint Corporation responsible for its own financial performance. The company has a significant stake in the non affiliate business market which it must defend against competitive encroachment and satisfy new requirements. With the proposed deployment of new telecommunications networks in the next decade by non-traditional players it is reasonable to conclude that North Supply will be aggressively pursuing the business opportunities they present. Any standard that the Commission may choose to impose in that environment is completely artificial and lacks any correlation to the market performance of either Sprint North Supply Company or any other competitor for that business.

The proposed 75% standard for the use of prevailing company price (PCP) is theoretically unsupportable in a competitive market

The Commission offers no supportable research to conclude that attainment of a 75% non affiliate revenue component is in the public interest. A review of professional literature related to - and academic research conducted on - affiliate transactions fails to offer any theoretical foundation for the establishment of the proposed standard.

Conventional market management theory suggests that any marketing strategy which endeavors to produce a defined mix of revenues (such as that envisioned by the FCC for compliance) can only be achieved by utilizing discriminatory pricing methods to achieve. Given the restrictions on pricing set by the FCC in Docket 86-111 any use of discriminatory pricing to achieve the desired standards proposed in this docket would be a violation of the terms prescribed by that proceeding.

The proposed 75% standard will effectively reduce the buyer influence available by the affiliates over the operations of Sprint North Supply Company

The achievement of full compliance with the FCC test by Sprint North Supply Company will require: a)significant reallocation of existing resources within Sprint North Supply Company, b)increased sales and marketing expenditures, c)increased inventory commitments (both stocking levels and catalog items) and d)systems management enhancements. These changes would constitute a strategic shift in the directional development of Sprint North Supply Company as well as its value to Sprint Corporation which cannot be easily corrected.

Compliance will have the effective result of reducing the buyer influence which can be exercised upon North Supply Company by the regulated subsidiaries of Sprint Corporation. As the collective bargaining power of the affiliates diminishes they will have less ability to preserve the extraordinary service conditions now provided them by Sprint North Supply without supplemental financial consideration.

The proposed 75% standard could jeopardize the service commitment to the Sprint affiliates

The Sprint North Supply Company is responsible for ensuring operating units of Sprint Corporation are adequately supplied with material and services necessary to achieve their respective performance goals. Despite the fact that Sprint North Supply generates more revenue from its non affiliate customers its primary commitment to service has been, is and must continue to be the affiliated business units of Sprint Corporation.

Any failure on the part of Sprint North Supply to effectively satisfy the performance expectations of the Sprint affiliate entities could result in the withdrawal of the affiliates as customers of North Supply. The establishment of a mandated target for non affiliate sales introduces a potential challenge to North Supply's commitments to the Sprint affiliates.

Conclusion

The burden of gaining public acceptance for business relationships between Sprint affiliates and Sprint North Supply Company must be borne by Sprint management. The benefit provided to Sprint affiliates by that association cannot be replaced or replicated by any other institutional relationship - it can only be aggressively defended by management in every public forum offered to it. Any willingness to accept further restrictions upon that relationship will virtually foreclose any opportunity for the Sprint telephone company affiliates to retain competitive parity with new market entrants.

Author:

Mr. Mann is a Managing Vice President of Greenwich Associates - a management consulting firm specializing in telecommunications industry issues. Mr. Mann holds a B.A. from Graceland College, M.A. and Ph.D. from the University of Missouri. He has lectured extensively on issues of affiliate relationships and has authored several articles including **"Affiliate Interests: Strategic Imperative or Regulatory Impediment?"**, **"Directory Publishing: Affiliating for Advantage"** and **"Restoration in the Midst of Revolution: Affiliate Interests and the Information Highway"**. Additionally, Mr. Mann has testified in a number of state regulatory proceedings on issues of organization design and affiliate relationships.

An Assessment of the FCC Notice of Proposed Rulemaking on the Affiliate Relationships of Sprint/United Management Company

Gregory Loyd Mann, Ph.D.
Managing Vice President
Greenwich Associates

Introduction

Affiliate interests remain one of the most widely examined and debated subjects in the telecommunications industry. Public hearings and regulatory inquiries into affiliate matters have been conducted by over two dozen state regulatory agencies, the Federal Communications Commission, the National Association of Regulatory Utility Commissioners, the United States Congress and a number of trade associations during the past ten years. Despite the extraordinary attention given to the subject, public opinion regarding the merit of such relationships has not been altered significantly - nor is it expected to in the near future without substantial improvement in the way such business activities are represented to the public.

The FCC in Docket 93-251 suggests once again that large complex organizations such as Sprint are inherently less efficient than small companies in the delivery of telecommunications services. It implies that affiliate relationships contribute to the creation of unnecessary layers of management expense which are tolerated only because such extraordinary expenses are recoverable from rate payers of the regulated subsidiaries. The FCC recommends a series of changes to the current affiliate transaction rules specifically designed to demonstrate that inefficiency and excessive costs do exist - whether or not they do

One such rule change is the application of an estimated fair market value test (EFMV) to all transactions involving the performance of services by one affiliate for another. Service transactions principally constitute activities performed by corporate parent organizations on behalf of their subsidiary business units. The affected services generally comprise essential legal, financial, managerial and technical activities that, if performed independently, would engender duplication of effort, additional cost and the increased probability of inconsistent reporting.

While it remains unstated in the **Notice** it is reasonable to conclude that any service - or set of services - which fail to meet a prescribed "market test" would be prohibited or its use discouraged for the future. This rather summary approach fails to consider the many intrinsic benefits of centralized services not always evidenced in statistical exercises such as EFMV.

We do not mean to imply by our comments that estimates of fair market value are not important measures of relative cost and performance, and where the confidence level of data used in the estimate is high, the use of EFMV methodologies merit consideration. Similarly, where EFMV output can provide management a meaningful foundation for decision making we would endorse its use.

Neither of these situations exist in proposing use of an EFMV test to corporate services. The relative confidence level for market prices is extremely low as evidenced by a number of benchmarking surveys and value studies undertaken in recent years by members of the industry. Decisions to centralize and decentralize services have been in response as much to technological advances, increased business risk, customer expectations and productivity goals as simply to achieve parity with some target cost. Management must continue to balances efficiency (cost) and effectiveness (customer satisfaction) to ensure its future success. Inordinate emphasis on the use of a single measurement such as EFMV fails to recognize the importance of that balance to the public.

The impact of the FCC proposed change to the United and Central Telephone Companies' operations of Sprint cannot be overemphasized. Sprint/United Management Company (SUMC) serves as the centralized managerial control point of the United and Central Telephone Companies in financial and administrative matters. SUMC acts on behalf of these affiliates in fulfilling the legal and regulatory obligations common to all of the business entities.

The staff of SUMC functions as both a determinant of corporate strategy and a primary control mechanism for affiliate compliance to that corporate strategy. This staff provides directional support to management and staff of the subsidiary business units necessary for the business unit to fulfill its assigned role in the corporation's strategic plan.

The Sprint Board of Directors has established an extensive operational role for the SUMC corporate staff. Performance of this role generates a set of administrative costs ultimately charged to the Service Agreement and subsequently assigned to the subsidiary business units for reimbursement.

The magnitude of cost incurred by the staff of SUMC is directly correlated to the role defined by the Sprint Board of Directors for them in the management of the corporation's enterprises. Comparing SUMC costs to other companies in the industry would be both inappropriate and misleading since this role varies significantly across the industry as companies have selected different organizational structures and operational strategies to pursue their independent objectives. Likewise, other companies respective cost structures vary significantly as a reflection of their organizations and operations. Any comparison between them is increasingly irrelevant both because of the limited comparability and the changing organizational composition in response to altered market conditions and new corporate goals.

Goals provide the conceptual framework within which the Sprint Board of Directors and management have pursued various corporate strategies. Goals have also served to shape the organizational structure and affiliate relationships which exist between corporate staffs and the subsidiary business units. It is from these goals that the set of corporate services provided under the Services Agreement emerge as critical management activities.

Academicians and business practitioners generally agree that goals give definition and purpose to the decisions of management. Goals prescribe the breadth of alternative organizational structures and management relationships which would be considered suitable to the achievement of the corporation's objectives. They narrow management's decision horizon and simplify its decision processes. They also serve to pre-determine certain outcomes.

Precept

Four principles govern organization design and provide the necessary set of parameters around decisions of organizational structure and management relationship. These principles define a planning envelope for management to use in the achievement of its corporate goals and objectives. Briefly stated these four principles are:

- organizational structures are defined to facilitate the effective execution of corporate strategies

- organizational structures change to reflect changes in corporate objectives and business strategy requirements

- business unit autonomy is determined in accordance with strategy requirements

- business unit strategies are subsets of the corporate strategy and exist to fulfill corporate objectives

Academic literature continues to advocate - and the best business practice continues to demonstrate - the importance of these four principles in strategic business management. There is nothing to suggest, in either the operational requirements of the telecommunications business or the regulatory processes which govern it, that disregard for these principles is prudent or proper.

Organizational Perspective

Sprint has structured its subsidiary business units around a bi-modal format. Individual business units are grouped beneath senior corporate officers who provide managerial support for the respective business units. The organizational structure provides functional segmentation and specialization between centralized staff organizations and their decentralized operating subsidiary counterparts. In this arrangement strategic policies, procedures, practices, programs and products are defined at a consolidated level and assigned to the subsidiaries for implementation. The work products developed by the staffs are specifically designed to achieve specified corporate goals and objectives endorsed by the corporate board of directors.

Managerial specialization such as that employed by Sprint defines two primary management roles for the headquarters staffs

> **Control** - the process of restricting the potential set of actions of subsidiary management to a prescribed set of alternatives which are consistent with approved corporate goals and objectives.
>
> **Coordination** - the process of directing business unit resources to a specific set of operational and managerial priorities necessary to achieve predetermined corporate goals and objectives.

Both management functions are critical to any organization's mission and are essential regardless of the specific organizational design. In multi-unit organizational structures such as the United and Central Telephone Companies, resource control and coordination are extremely important to cost-effective management. Control is essential to ensure continued legal and regulatory compliance in a constantly changing business environment. Coordination is necessary to ensure operational continuity and technological compatibility in the subsidiary business units.

The full benefit of control and coordination principles, however, is not recognized by measurements such as the EFMV because benefit is largely accrued at the subsidiary level rather than at the corporate level and cannot be easily translated into specific expense categories. It comes in the form of shorter repair intervals, lower capital requirements, enhanced preventive maintenance programs, shorter product development intervals, higher quality transmission levels and a myriad of other operational improvements at the operating company level.

By maintaining a broad level of involvement by the SUMC staff in planning and operations activities of its subsidiaries, management employs a highly participatory organization model that establishes the SUMC departments in leadership roles for now and in the future. SUMC staff have intimate knowledge and understanding of the business enhanced by rotational assignments, etc. In an industry such as telecommunications where the future offers so much uncertainty extraordinary coordination and control is essential to ensure responsive and responsible management decisions by the corporation.

The need for strong directional control is even more clearly essential for the United and Central Telephone Companies' local exchange operations because of the relatively small size of its individual state operations and geographic dispersion. The United and Central Telephone Companies' total local exchange operations roughly equate in access lines and customers to a number of single state local exchange carriers (e.g., New York Telephone, New Jersey Bell, Pacific Telephone, Illinois Bell, Ohio Bell, Bell of Pennsylvania) who, in our opinion, benefit immensely in both organization choice and cost structures from a geographic concentration of customers. Sprint lacks that highly favorable concentration of customers and, therefore, has limited organizational choices and limited alternative cost structures.

Findings/Conclusions

Examination of the FCC proposal has led us to conclude a number of deficiencies exist in the FCC's rationale for changes to rules. These flaws diminish the reliability of any application to service transactions - especially those involving Service Agreement expenses incurred by the United and Central Telephone Companies' local exchange units. Specifically, we submit that -

> **The composition and cost of centralized services provided to subsidiary business units is a function of the Sprint organization model and lacks any equivalent basis for determining estimated fair market value**
>
> The Sprint board of directors has established a two-tier organizational structure in which it has grouped all subsidiary business units. Services provided to the subsidiary business units are determined by their universal need and economy. Costs for such services are assigned to each of the recipient organizations using a consistent cost allocation method for all subsidiaries. The proportion of cost for any corporate service assigned to a subsidiary will vary in accordance with the total incurred cost by the corporate department and the method chosen to allocate the cost to the business unit.
>
> The affiliate cost to the subsidiary business units for services provided by the corporate staff is a reflection of the scope of services provided it under the Service Agreement. The United and Central Telephone Companies have determined that it is in their best interest to have a corporate staff at SUMC that provides a fairly

extensive array of professional and technical services. This approach results in relatively large allocations by SUMC to the affiliates for the cost of those services.

Some members of the telecommunications community have settled upon different organizational structures, defined their corporate role smaller and, therefore, have incurred less affiliate expense and more direct local expense. Still others have sought to centralize as much as possible to their corporate center. The result has been the notable absence of any uniform organizational model upon which valid comparisons might be made.

It is the opinion of **Greenwich Associates** that without a generally accepted organizational model any attempt to gauge an estimated fair market value for corporate services would be unfair and unprofessional.

The complement of corporate services provided by SUMC to its affiliate units is comprehensive and consistent with the strategic role defined for the corporate staff.

SUMC properly employs a professional corporate staff organization to augment the management resources of the United and Central Telephone Companies' business units. The corporate staff is responsible for the development of policies, practices, procedures, products and programs necessary to achieve corporate defined goals and objectives. Furthermore, the staff serves to control allocation, and coordinate the use, of corporate resources by the affiliate business units. By endeavoring to extend corporate responsibility to resource coordination and control, SUMC has legitimately broadened the scope of support available through centralized resource management. In doing so, it has outlined a participant role for the corporate staff in the operations of the affiliate business units.

It is the opinion of **Greenwich Associates** that the complement of services provided by the corporate staff is sufficient to ensure this participant role is beneficial to the affiliate and does not represent additional cost to the affiliate units in the performance of their assigned objectives.

The services provided to the affiliate business units constitute affiliate transactions which represent the primary mechanism available to achieve standardized operations of the United and Central Telephone Companies' business units.

Sprint has organized its various business lines into subsidiary business units with their own boards of directors and managers. The management group of each business unit is responsible for the attainment of certain corporate prescribed goals and objectives. Centralized corporate services offer the primary means of providing uniform direction to the subsidiary management groups in the achievement of their respective goals and objectives.

Sprint's local exchange operations consist primarily of business units that have been acquired from other telecommunications corporations or were independently managed prior to acquisition. In each instance, Sprint has found it necessary to ensure the goals and objectives of the new units are consistent with those of the corporate board of directors. The affiliate relationship approach provides the means to extend corporate priorities into newly acquired business units and achieve operational uniformity without direct managerial control of subsidiary affairs. The development of uniform policies, practices, procedures, products and programs provides the means to introduce new concepts into the subsidiary business units at approximately the same time. This facilitates operational integration and standardization of newly acquired subsidiaries in a manner not otherwise achievable.

Estimating fair market value for the carriers will be cost-prohibitive and unmanageable as the scope and scale of corporate services change in the future

The current set of corporate services have been established to support the achievement of prescribed goals and objectives outlined by the corporate board of directors. As goals and objectives are altered to reflect new business opportunities, changing legal and regulatory responsibilities or new corporate agendas the responsibility of the corporate staff will change to reflect its newly defined role. Such change could either broaden or narrow the scope of corporate involvement depending upon the particular situation.

The proposed introduction of a fair market value test for services would, in these conditions, require almost continuous examination of both the services being provided and their respective cost. The enormity of such an undertaking defies serious consideration when the relative benefit of doing so is highly questionable.

It is the opinion of **Greenwich Associates** that management must continue to have the flexibility to modify the complement of services it provides to its subsidiaries. Any effort to restrict management's discretion by subjecting its corporate service costs to artificial examination - either in advance or arrears - of its decisions is an unwarranted intrusion upon the private sector's freedoms of operation.

The current set of corporate services reflect an effort to leverage critical management talent throughout the subsidiary business units which will not be reflected in any calculation of fair market value.

The United and Central Telephone Companies are comprised of a number of small business units engaged in the local telecommunication business. The relatively small scale of operations (when compared to the Regional Holding Company business units) for these business units results in a large scope of responsibility for the SUMC staff and management. Financial conditions do not permit retention of highly specialized staffs to support narrowly defined areas of support. Subsidiary business requirements demand general managers capable of addressing many issues - not just one or two.

Management positions within the United and Central Telephone business units provide limited opportunity for specialized skill development. The limited need for specialists makes employment of such skilled resources by subsidiaries uneconomical and unjustifiable. The consolidation of certain planning, policy development and systems mechanization activities to corporate as staff responsibilities is a reflection of the need for such talent in the planning and management of the business, the limited availability of such expertise in the subsidiary business units and the need to leverage the available resources throughout the corporation.

It is the opinion of **Greenwich Associates** that the corporate staff provides critical talent to the subsidiary business units not otherwise available from within their own organizational units and is not recognized by reliance upon EFMV principles to solely establish benefit.

Affiliate relationships provide the means to narrow the technological and managerial variance between business units.

SUMC provides services to a set of affiliate business units which vary in size, composition, technological and managerial capability. Most have been acquired through financial agreements from other parties in whatever state they then existed. Management continues to seek improvement in the technological and managerial proficiency of its business subsidiaries through broad application of knowledge, skills and talents developed within its subsidiary organizations. The goal has been to close any gaps which exist between the units simply because of size, composition or previous management priorities.

The commitment of management to advance the technological and managerial capability of the subsidiary business units is essential to achieve maximum benefit from new technologies and procedures. Technological standardization and managerial uniformity provide the basis for cost containment strategies and total quality management commitments.

It is the opinion of **Greenwich Associates** that SUMC - through its staff services - appropriately directs the improvement of its affiliate business units in areas which impact dramatically upon customer's expectations of service and service costs. This constitutes one of the major benefits of centralized staff organizations that cannot be derived through contracting with outside parties for support. In that situation, secondary benefit of the relationship accrues to the party who improves their relative experience and performance.

The estimated fair market value of services is extremely difficult to measure objectively, changes significantly over time and is easily misrepresented by interested parties

In contrast to physical assets which are tangible - and the relative merits of which can be readily determined in the market - it is far more difficult to measure the worth of professional and technical services than is suggested by the FCC in Docket 93-251. The very imprecise nature of services leaves professional and technical services highly susceptible to individual interpretation. This single fact severely limits the utility of any valuation to transactions other than the one for which it was originally done.

Conventional valuation methodologies have generally subjected physical assets to three primary tests in the conduct of establishing their relative worth -

> **Comparability** - the relative similarity in physical condition and utility as other items represented to be identical
>
> **Availability** - the relative ability to substitute a comparable asset for the subject without extraordinary cost or effort
>
> **Capability** - the technical properties and functional utility of the subject asset in meeting the need of the acquiring party

In each instance, the physical properties of the asset are readily discernible to the valuing party. The physical presence of the asset, therefore, reduced the need for assumption and discount in the valuation process.

In contrast, services have no physical properties, no visible state and, therefore, no easily discernible value to the beholder. A suitable set of professional and technical services with which to compare the subject service is virtually impossible to assemble in the highly fluid and relatively undisciplined services market. Without an accepted base of services for comparison with the subject service, a conclusion regarding relative worth is impossible to draw without stepping across the line of professional responsibility and integrity.

Similarly, the relatively low entry barrier to the professional and technical services field presents the evaluating party with an almost infinite number of service substitutes. The relative market volatility created by free entry and exit of professional service firms and practitioners precludes any semblance of long-term pricing discipline amongst the participants. Without adequate controls on entry-exit of the market we have no effective governor on "market price".

The very limited set of entry-exit controls on services further proscribes the ability of an appraising party to effectively gauge professional competency. This is extremely critical when one considers the fact that one's employment of any professional is predicated upon the assumption that an individual - or firm - is sufficiently competent and capable to satisfy one's needs.

It is the opinion of **Greenwich Associates** that any proposed changes to the regulatory treatment of services offered under the terms of the Service Agreement between Sprint United Management Company and its affiliate business units is unwarranted and unnecessary. The family of services provided are needed and necessary to fulfill the duties and obligations of the subsidiary companies; they do not duplicate - in full or in part - services performed by the subsidiary companies themselves; they represent competent and capable subject matter experts and decision support systems that may not otherwise be available to subsidiary management.

Similarly, we submit that any effort by the FCC to establish any service cost thresholds, boundaries, targets or guidelines for affiliate services is equally unwarranted and unnecessary. We believe that any such proposed threshold, boundary, target or guideline is arbitrary, capricious and totally without merit. The current regulatory processes offer sufficient opportunity for the public to review actual costs incurred for affiliate services and determine their appropriateness without the establishment of artificial points of judgment.

Finally, we ask for the Commission to reconsider its extension of EFMV to affiliate services. While it may seem to some parties a potential method of calculating the relative efficiencies of centralized staff organizations it is a highly unworkable and unreliable process. It is our opinion that it will prove to be of extremely limited value to either improved regulation or improved management decision making.

Overall, it is the opinion of **Greenwich Associates** that the managerial relationship between the subsidiary business units and the corporate staff reflects prudent and proper management. Furthermore, the relationship reflects a mutually beneficial arrangement on the part of all individuals and organizations and is consistent with structures employed by the corporation's industry peers. We find no reason for the FCC to suggest increased oversight is necessary to preserve the public interest or promote any structural change in the affiliate relationship that currently exists. Any consequent change to the current relationship should reflect a change in corporate strategy or business interest - not the expressed desires of some portion of the regulatory community.

Author:

Mr. Mann is a Managing Vice President of Greenwich Associates - a management consulting firm specializing in telecommunications industry issues. Mr. Mann holds a B.A. from Graceland College, M.A. and Ph.D. from the University of Missouri. He has lectured extensively on issues of affiliate relationships and has authored several articles including "**Affiliate Interests: Strategic Imperative or Regulatory Impediment?**", "**Directory Publishing: Affiliating for Advantage**" and "**Restoration in the Midst of Revolution: Affiliate Interests and the Information Highway**". Additionally, Mr. Mann has testified in a number of state regulatory proceedings on issues of organization design and affiliate relationships.

CERTIFICATE OF SERVICE

I, Melinda L. Mills, hereby certify that I have on this 10th day of December, 1993, sent via U.S. First Class Mail, postage prepaid, or Hand Delivery, a copy of the foregoing "Comments of Sprint Corporation" in the Matter of Amendment of Parts 32 and 64 of the Commission's Rules to Account for Transactions Between Carriers and Their Nonregulated Affiliates, CC Docket No. 93-251, filed this date with the Acting Secretary, Federal Communications Commission, to the persons listed on the attached service list.

Melinda L. Mills

Melinda L. Mills

Kathleen Levitz, Acting Chief*
Common Carrier Bureau
Federal Communications Commission
1919 M Street, NW, Room 500
Washington, DC 20554

Greg Vogt, Chief*
Tariff Division
Federal Communications Commission
1919 M Street, NW, Room 518
Washington, DC 20554

ITS*
1919 M Street, NW, Room 246
Washington, DC 20554

Joel Ader*
Bellcore
2101 L Street, NW, 6th Floor
Washington, DC 20037

Rudy Baca*
Legal Advisor
Office of Chairman Quello
Federal Communications Commission
1919 M Street, NW, Room 802
Washington, DC 20554

Byron Marchant*
Sr. Legal Advisor
Office of Commissioner Barrett
Federal Communications Commission
1919 M Street, NW, Room 826
Washington, DC 20554

Linda Oliver*
Legal Advisor
Office of Commissioner Duggan
Federal Communications Commission
1919 M Street, NW, Room 832
Washington, DC 20554

* Indicates Hand Delivery